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KAPS
ANNUAL REPORT
1974

KAPS TRANSPORT LTD.

ANNUAL REPORT

JUNE 30, 1974

DIRECTORS

H. David Kapchinsky	Edmonton, Alberta
Gerhard Kapchinsky	Fort St. John, B.C.
Lorne C. Leitch	Edmonton, Alberta
Richard A. N. Bonnycastle	Calgary, Alberta
Eric Connelly	Calgary, Alberta
G. Richard Chater	Toronto, Ontario
James W. McCutcheon	Toronto, Ontario
George H. Montague	Toronto, Ontario

OFFICERS

President	H. David Kapchinsky
Vice-President	Gerhard Kapchinsky
Vice-President	Walter H. Horton
Vice-President	Byron E. Dahl
Secretary	Alan J. Emsley
Treasurer	Alan J. Emsley

REGISTERED OFFICES

9303 - 51st Avenue, Edmonton, Alberta

EXECUTIVE OFFICES

9303 - 51st Avenue, Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR

Royal Trust Company, Edmonton, Vancouver,
Winnipeg and Toronto

STOCK EXCHANGE

Toronto Stock Exchange

BANKERS

Bank of Montreal
Mercantile Bank of Canada

AUDITORS

Thorne Gunn & Co.,
Edmonton, Alberta

ANNUAL MEETING

December 13, 1974 at 9:30 a.m.
Chateau Lacombe, Edmonton, Alberta.

FINANCIAL HIGHLIGHTS

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>
Total revenue	\$25,048,000	\$21,864,000	\$21,927,000	\$16,193,000	\$14,047,000	\$8,034,000	\$6,480,000
Net income (loss) (note 1)	(\$2,478,000)	\$1,077,000	\$1,405,000	\$736,000	\$1,227,000	\$869,000	\$488,000
Net return (note 2)	(12.7%)	3.2%	5.4%	4.5%	8.7%	8.4%	7.5%
Net income (loss) per common share							
Before extraordinary income	(\$1.24)	27.6¢	47.9¢	31.9¢	60.5¢	38.8¢	28.0¢
Extraordinary income	27.3¢	14.5¢	9.2¢			11.2¢	
Net income (loss)	(96.7¢)	42.1¢	57.1¢	31.9¢	60.5¢	50.0¢	28.0¢
Cash flow from operations	(\$1,559,000)	\$3,482,000	\$3,575,000	\$2,689,000	\$2,715,000	\$1,486,000	\$967,000
Per common share (note 2)	(\$.61)	\$1.36	\$1.45	\$1.17	\$1.34	\$.85	\$.56
Shareholders' equity	\$10,117,000	\$12,787,000	\$11,928,000	\$10,122,000	\$7,283,000	\$3,172,000	\$2,493,000
Per common share	\$3.95	\$4.99	\$4.70	\$4.15	\$3.36	\$1.82	\$1.43
Working capital	\$277,000	\$1,270,000	\$1,760,000	\$1,370,000	\$1,424,000	\$1,139,000	\$107,000
Total assets	\$36,201,000	\$32,431,000	\$28,426,000	\$22,036,000	\$16,094,000	\$10,475,000	\$4,854,000
Shares outstanding (note 3)	2,563,265	2,557,109	2,459,638	2,306,845	2,027,010	1,740,000	1,740,000

Note 1 - Including extraordinary income

Note 2 - Excluding extraordinary income

Note 3 - Weighted average common shares outstanding for the year. Common shares outstanding in 1969 and 1968 are adjusted for the 3 for 1 stock split of November, 1969 and all per share figures are adjusted accordingly.

KAPS TRANSPORT LTD.

and subsidiary companies

Transportation

Kaps Transport Ltd.
Arctic Shallow Marine Ltd.
Bolsters Transport Ltd.
Kaps Transport, Inc.
Wizard Transport Ltd.

Manufacturing

Kaps Manufacturing Ltd.

Other

Dales Holding Ltd.
R. R. Dales Construction Co. Ltd.
Kaps Agencies Ltd.
Kaps Earthmoving & Construction Ltd.
K. C. Services Ltd.
Norcan Parts & Equipment (1965) Ltd.

REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, I submit a report on the results of your company's operations for the past fiscal year.

During the past year, the economic conditions that prevailed have had an adverse affect upon the results of the company. Even though earthmoving operations were started in the Athabasca Oil Sands project and certain land transportation increased as a result of the commencement of the Alyeska Pipeline project, start-up costs in these two areas and decreased exploration activities in the North resulted in substantial operating losses. Other factors contributing to these losses were continuing losses in manufacturing, the rail strike which affected the marine operation, rising costs of direct operations and administration and interest which could not be offset by corresponding revenue increases due to prior contractual commitments.

Management has now been able to put into effect a number of rate increases and has almost completed its program of disposing of unprofitable operations. The results of these actions should improve the company's performance next year.

Financial Highlights for 1974 versus 1973

1974 revenues amounted to \$25,048,000 versus \$21,864,00 in 1973.

1974 loss before extraordinary items amounted to \$3,178,000 or \$1.24 per share versus income before extraordinary items of \$705,000 or 27.6¢ per share in 1973.

1974 extraordinary items provided income of \$700,000 or 27.3¢ per share versus \$372,000 or 14.5¢ per share in 1973.

The following is an analysis of the company's divisional gross revenues.

	<u>1974</u>	<u>1973</u>
Transportation	\$16,484,000	\$15,522,000
Manufacturing	4,387,000	4,665,000
Other	4,779,000	5,873,000
	<u>25,650,000</u>	<u>26,060,000</u>
 Inter-division eliminations	 602,000	 4,196,000
Net reported revenue	<u>\$25,048,000</u>	<u>\$21,864,000</u>

The apparent increase in administrative costs result from the current expansion of the Alaskan and Earthmoving operations. In addition Manufacturing incurred a full year's expenses whereas the major part of the past year was devoted to start-up. Other factors were higher bank interest costs, additional professional fees, general wage increases and higher losses from bad debts.

Divisional Reports

A. Transportation

i. Land

During the year the operations of the Alaskan subsidiary expanded with the commencement of the Alyeska Pipeline project. While this contributed additional revenue, gross profits were not realized as substantial start-up costs were incurred which have

been expensed. This increase in activity necessitated an increase in the automotive fleet from 5 units to 47 units and a build up of a new local management organization. Subsequent to the fiscal year end, rate increases have been authorized which management feels will contribute future operating profits.

The reduction in activity combined with the increased cost of operation have contributed to the low gross profits reported in the other areas of land transportation.

In February, 1974 Norcan Parts & Equipment (1965) Ltd. sold its shares in Kordyban Transport Ltd. at no loss. These shares were sold as management felt that Kordyban Transport Ltd. was not generating a sufficient return to justify the investment.

ii. Marine

The tonnage for the 1973 season was maintained but revenues decreased due to the rail strike and lower tariff cargos being carried.

iii. Air

In June, 1974 the shares of Mackenzie Air Ltd. were sold for \$2,000,000. Consideration was received in the form of \$1,000,000 preferred shares in LaRonge Aviation Services Ltd. and \$1,000,000 in cash. This resulted in an extraordinary after tax profit of \$877,000. The preferred shares in LaRonge Aviation carry a convertibility option which may allow Kaps Transport to participate in the equity of LaRonge Aviation at some future date. An offer to purchase the shares of Shirley Helicopters Ltd. has been accepted pending approval from the Air Transport Commission. The loss arising on this sale has been recognized in the financial statements although such approval has not been received and it is not certain that the sale will be finalized.

The disposal of these companies is a result of management's continuing evaluation of relevant returns on investments and financial contributions to corporate objectives.

B. Manufacturing

During the year Kaps Manufacturing underwent significant reorganizational changes. Expertise was expanded and diversified to penetrate and compete in areas other than the oil and gas sector of industry in Western Canada. Product lines and plant capabilities have been examined in an effort to determine and promote the company's most profitable business.

Market surveys indicate that the forthcoming year will see the completion of planning stages and commencement of operations of many large scale projects in Alberta. Management feels that we should be able to acquire a profitable share of this market and that the major operating problems which contributed to the poor past performance of this division have been eliminated.

C. Other

- i. Included in direct operating expenses is a before tax loss of \$101,000 incurred on the disposal of the inventory of the unprofitable U.S.A. branch of Norcan Parts & Equipment (1965) Ltd. In addition that company has reduced the carrying value of its Canadian inventory by approximately \$300,000 to recognize obsolescence.
- ii. During the year the company sold the land and gravel properties of Dales Holdings Ltd. for \$932,000 resulting in an after tax gain of \$73,000.

iii. In early 1974 the company expanded its earthmoving operations and is presently working on the Athabasca Oil Sands project. This expansion necessitated the acquisition of a fleet of earthmoving equipment. The acquisition was financed mainly through leasing and purchases under conditional sales agreements.

By early 1975 the company will have completed two large contracts with Canadian Bechtel Limited and Great Canadian Oil Sands Limited which are presently in progress. Management feels that this operation is progressing satisfactorily and is expected to contribute to future profits.

General

In January, 1974 the company entered into a 10 year-\$10,000,000 refinancing at a 10¼ percent interest rate. 6.7 million dollars of proceeds were used to retire a 5 year bank debenture and the balance of the proceeds was added to working capital. Subsequent to June 30, 1974 the debenture principal was reduced by approximately \$1,000,000 with the cash proceeds from the sale of Mackenzie Air Ltd.

Effective April 1, 1974 the major operating companies within the Kaps Group signed contracts with various Labour Unions. This will enable the company to perform work which was previously not available.

In keeping with current practice relating to financial statement presentation, the company has reflected in its financial statements only income taxes recoverable to the extent that losses resulted in current income tax recoveries or the elimination of deferred income tax credits. Unrecognized losses available to reduce future incomes, otherwise taxable, amount to \$2,564,000.

November 8, 1974
Edmonton, Alberta

H. David Kapchinsky
President and Chief Executive Officer

KAPS TRANSPORT LTD.

(Incorporated under the laws of Alberta)
and subsidiary companies

CONSOLIDATED BALANCE SHEET — JUNE 30, 1974 (with comparative figures at June 30, 1973)

ASSETS	1974	1973
CURRENT ASSETS		
Cash	\$ 178,000	\$ 162,000
Term deposit	701,000	
Accounts receivable	5,892,000	5,131,000
Agreements receivable	1,037,000	500,000
Income taxes recoverable		127,000
Inventories (note 3)	3,125,000	3,186,000
Unconsolidated subsidiary for sale (note 4)	153,000	
Prepaid expenses and deposits	751,000	698,000
	<u>11,837,000</u>	<u>9,804,000</u>
INVESTMENTS		
Joint ventures	595,000	641,000
50% Owned companies	349,000	393,000
Other (note 5)	1,000,000	
	<u>1,944,000</u>	<u>1,034,000</u>
FIXED ASSETS (note 6)		
Land, buildings and equipment, at cost	26,664,000	24,682,000
Less accumulated depreciation	6,394,000	5,773,000
	<u>20,270,000</u>	<u>18,909,000</u>
INTANGIBLES AND DEFERRED CHARGES		
Excess of cost over fair value at dates of acquiring shares of subsidiary companies	1,600,000	2,298,000
Deferred development costs, less amortization	328,000	292,000
Financing charges	148,000	
Other deferred charges, at cost less amortization	74,000	94,000
	<u>2,150,000</u>	<u>2,684,000</u>
	<u>\$36,201,000</u>	<u>\$32,431,000</u>
Approved by the Board Lorne C. Leitch, Director H. David Kapchinsky, Director		

LIABILITIES	1974	1973
CURRENT LIABILITIES		
Bank advances, secured by general assignment of book debts	\$ 4,373,000	\$ 2,761,000
Accounts payable and accrued liabilities	4,796,000	3,505,000
Income taxes payable	11,000	
Deferred revenue	106,000	108,000
Principal due within one year on long-term debt	2,274,000	2,160,000
	<u>11,560,000</u>	<u>8,534,000</u>
LONG-TERM DEBT (note 7)		
Debentures	10,692,000	8,096,000
Term bank loan		116,000
Finance contracts	2,592,000	297,000
Agreements and mortgages payable	22,000	516,000
	<u>13,306,000</u>	<u>9,025,000</u>
Less principal included in current liabilities	2,274,000	2,160,000
	<u>11,032,000</u>	<u>6,865,000</u>
DEFERRED INCOME TAXES (note 8)	<u>3,492,000</u>	<u>4,148,000</u>
MINORITY INTEREST		<u>97,000</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 9)		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,563,265 Common shares	7,896,000	7,896,000
RETAINED EARNINGS	<u>2,221,000</u>	<u>4,891,000</u>
	<u>10,117,000</u>	<u>12,787,000</u>
	<u>\$36,201,000</u>	<u>\$32,431,000</u>
LONG-TERM LEASES (note 10)		
CONTINGENT LIABILITY (note 11)		

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED JUNE 30, 1974

(with comparative figures for 1973)

	1974		1973	
	Revenue	Gross operating profit (loss)	Revenue	Gross operating profit
Divisions				
Transportation	\$16,484,000	\$1,186,000	\$15,522,000	\$2,586,000
Manufacturing	4,387,000	(679,000)	4,665,000	505,000
Other	4,779,000	102,000	5,873,000	966,000
	25,650,000	609,000	26,060,000	4,057,000
Elimination of inter-division transactions	602,000		4,196,000	305,000
	<u>\$25,048,000</u>	<u>609,000</u>	<u>21,864,000</u>	<u>3,752,000</u>
Administrative expenses (note 2a)		3,571,000		1,765,000
Interest on long-term debt		1,036,000		564,000
Minority interest in net income (loss) of subsidiary company		(5,000)		11,000
		<u>4,602,000</u>		<u>2,340,000</u>
Income (loss) before income taxes and extraordinary items		<u>(3,993,000)</u>		<u>1,412,000</u>
Income taxes (note 8)				
Current		(2,000)		(34,000)
Deferred		(813,000)		741,000
		<u>(815,000)</u>		<u>707,000</u>
Income (loss) before extraordinary items		<u>(3,178,000)</u>		<u>705,000</u>
Extraordinary items				
Gain on sale of subsidiary companies less income taxes of \$324,000 related thereto		926,000		
Writedown to realizable value of subsidiary for sale (note 4)		(226,000)		
Sale of goodwill by subsidiary company less income taxes of \$46,000 related thereto				372,000
		<u>700,000</u>		<u>372,000</u>
NET INCOME (LOSS) FOR THE YEAR		<u><u>\$(2,478,000)</u></u>		<u><u>\$1,077,000</u></u>

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS YEAR ENDED JUNE 30, 1974

(with comparative figures for 1973)

	1974	1973
Balance at beginning of year	\$4,891,000	\$4,198,000
Net income (loss) for the year	(2,478,000)	1,077,000
	2,413,000	5,275,000
Dividends paid	192,000	384,000
BALANCE AT END OF YEAR	\$2,221,000	\$4,891,000

	1974	1973
Earnings (loss) per common share, on a weighted average basis		
Income (loss) before extraordinary items	\$(1.24)	27.6¢
Net income (loss) for the year	\$ (.97)	42.1¢

On a fully diluted basis earnings (loss) per common share are materially the same as those calculated on a weighted average basis.

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED JUNE 30, 1974

(with comparative figures for 1973)

SOURCE OF FUNDS	1974	1973
Income before extraordinary item		\$ 705,000
Items not involving current funds		
Depreciation and amortization		2,012,000
Deferred income taxes		741,000
Minority interest in net income of subsidiary company		11,000
Other		13,000
		3,482,000
Decrease in investment in joint ventures	\$ 46,000	48,000
Decrease in investment in 50% owned companies ..	13,000	
Proceeds from sale of subsidiaries, less current income taxes related thereto	2,564,000	
Working capital deficiency of subsidiaries sold or for sale	795,000	
Sale of goodwill by subsidiary company, less income taxes related thereto		372,000
Increase in long-term debt	4,167,000	1,436,000
Issue of common shares		166,000
	7,585,000	5,504,000
APPLICATION OF FUNDS		
Loss before extraordinary items	3,178,000	
Items not involving current funds		
Depreciation and amortization	(2,406,000)	
Deferred income taxes, reduction	813,000	
Minority interest in loss of subsidiary company ..	5,000	
Other	(31,000)	
	1,559,000	
Investment in 6% preferred shares	1,000,000	
Additions to fixed assets, net	5,583,000	4,852,000
Investment in 50% owned company		406,000
Deferred development costs	88,000	292,000
Financing charges	148,000	
Other deferred charges	8,000	60,000
Dividends paid	192,000	384,000
	8,578,000	5,994,000
DECREASE IN WORKING CAPITAL	993,000	490,000
WORKING CAPITAL AT BEGINNING OF YEAR	1,270,000	1,760,000
WORKING CAPITAL AT END OF YEAR	\$ 277,000	\$1,270,000

KAPS TRANSPORT LTD.

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1974

1. BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES

(a) Basis of consolidation

Except for the investment in one unconsolidated subsidiary (see note 4) the consolidated financial statements include the accounts of Kaps Transport Ltd. and its subsidiary companies, all of which are wholly-owned.

(b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. In some cases certain companies in the group perform services for other companies. The resulting inter-company revenues and any gross profit therefrom have been eliminated in these consolidated financial statements.

(c) Valuation of inventories

Inventories are valued as follows

- Parts and supplies — at the lower of cost and replacement cost
- Automotive and heavy equipment — at the lower of cost and net realizable value

(d) Joint ventures and 50% owned companies

The investments in joint ventures and 50% owned companies are carried at cost of investment, including advances, plus equity in unremitted earnings since acquisition, which is not in excess of equity in underlying net assets.

The company's equity in net income of joint ventures and 50% owned companies included in revenue on the consolidated statement of income is as follows

	1974	1973
Joint ventures	\$29,000	\$70,000
50% owned companies	(31,000)	(13,000)

(e) Depreciation of fixed assets

Depreciation is recorded in the accounts from the date of acquisition of the assets at rates and on bases (set out in note 6) calculated to amortize the cost of the assets, less residual value, if any, over the estimated useful life of the assets.

(f) Amortization of deferred charges

Deferred charges are amortized by charges against earnings over the periods of benefit to the companies. In 1974 amortization charged against earnings amounted to \$58,000 (\$9,000 in 1973).

(g) Income taxes

The companies reflect in earnings income taxes currently payable or recoverable and income taxes deferred by claiming certain expenses, principally depreciation of fixed assets, for income tax purposes in amounts which differ from those recorded in the accounts. The accumulated total of such income tax deferments is reflected in the accompanying balance sheet as "Deferred income taxes".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. EXPENSES

(a) Administrative expenses

The principal contributors to administrative expenses are as follows

	1974	1973
Kaps Transport Ltd.	\$ 1,942,000	\$ 1,020,000
Kaps Manufacturing Ltd.	777,000	35,000
Kaps Transport, Inc.	158,000	47,000
R. R. Dales Construction Co. Ltd.	195,000	131,000
Norcan Parts & Equipment (1965) Ltd.	142,000	221,000
Kaps Earthmoving & Construction Ltd.	39,000	
Mackenzie Air Ltd.	173,000	136,000
Shirley Helicopters Ltd.	28,000	24,000
Other	117,000	151,000
	<u>\$ 3,571,000</u>	<u>\$ 1,765,000</u>

(b) Depreciation

Depreciation deducted in arriving at gross operating profit amounted to \$2,348,000 (\$2,003,000 in 1973).

(c) Remuneration of directors and officers

Aggregate direct remuneration paid or payable by the companies to directors and officers amounted to \$213,000 (\$185,000 in 1973).

3. INVENTORIES

Inventories consist of the following

	1974	1973
Parts and supplies	\$ 1,831,000	\$ 1,275,000
Automotive and heavy equipment	1,294,000	1,911,000
	<u>\$ 3,125,000</u>	<u>\$ 3,186,000</u>

4. UNCONSOLIDATED SUBSIDIARY FOR SALE

During the year the company agreed to sell a wholly-owned subsidiary. The sale is subject to approval by regulatory authorities which was pending at June 30, 1974. The investment in this unconsolidated subsidiary is carried at realizable value and the expected loss on actual closing of the sale is reflected in extraordinary items on the statement of income.

5. OTHER INVESTMENTS

As partial consideration on the sale of a subsidiary the company received 1,000,000 6% \$1 par value non-marketable preferred shares of the purchaser which, under certain conditions, may be converted into common shares. These preferred shares are cumulative, with dividends commencing in 1978.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. FIXED ASSETS

	1974		1973
	Cost	Accumulated depreciation	Net
Land	\$ 269,000		\$ 266,000
Buildings	1,345,000	\$ 165,000	1,039,000
Automotive equipment	11,350,000	3,063,000	6,331,000
Portable field equipment	3,309,000	1,009,000	2,025,000
Aircraft	24,000	2,000	1,037,000
Marine equipment	7,247,000	1,362,000	6,154,000
Leasehold improvements	96,000	48,000	37,000
Office and shop equipment	295,000	133,000	399,000
Aggregate equipment	1,545,000	418,000	900,000
Gravel pits			372,000
Roadways and docks	1,184,000	194,000	349,000
	<u>\$26,664,000</u>	<u>\$6,394,000</u>	<u>\$18,909,000</u>

Depreciation bases and rates used by the companies are

On a diminishing balance basis

Buildings

Concrete block	5%
Frame	10%
Office and shop equipment	20%
Roadways	4%

On a straight line basis

Automotive and portable field equipment	10% - 33⅓ %
Aircraft	12½ %
Marine equipment	6⅔ %
Aggregate equipment	10% - 20%
Docks	20%
Leasehold improvements	equal annual amounts over the life of the lease

7. LONG-TERM DEBT

(a) Debentures	1974	1973
10¼ % Debenture - parent company and certain subsidiary companies -----	\$10,000,000	
Payable \$940,666 principal in July 1974, then interest only to January 1975 and blended quarterly instalments of \$357,080 from April 1975 to October 1983 with a final payment of \$2,168,947 in January 1984; secured by a first fixed specific mortgage on marine and certain other equipment.		
The companies are in default under covenants contained in the debenture. As a result the lender may declare the principal balance immediately due and payable and, in the event of non-payment, exercise its security. To date the lender has given no indication that it intends to pursue this course of action and the receipt of such notice is not anticipated.		
Bank debentures		
Parent company and certain subsidiary companies -----		\$ 7,360,000
Subsidiary company -----	692,000	736,000
Payable in monthly instalments of \$4,000 to \$10,000 with a final payment of \$232,000 on February 1, 1980; interest payable monthly at various rates related to the bank's prime lending rate; secured by a general assignment of receivables, a first fixed specific mortgage on land, building and certain equipment and by a first floating charge on all assets.		
	<u>\$10,692,000</u>	<u>\$ 8,096,000</u>
(b) Term bank loan	1974	1973
11% Loan -----		<u>\$ 116,000</u>
(c) Finance contracts		
Payments due in 1974 -----		\$ 216,000
Payments due in 1975 -----	\$ 1,156,000	81,000
Payments due in 1976 -----	660,000	
Payments due in 1977 -----	691,000	
Payments due in 1978 -----	85,000	
	<u>\$ 2,592,000</u>	<u>\$ 297,000</u>
(d) Agreements and mortgages payable	1974	1973
3½ % Mortgage, payable \$247 monthly including principal and interest -----	\$ 22,000	\$ 22,000
3% Agreement payable on purchase of the shares of Dales Holdings Ltd. -----		290,000
6% Mortgage -----		204,000
	<u>\$ 22,000</u>	<u>\$ 516,000</u>

8. INCOME TAXES

The tax effect of loss carryforwards is recognized only to the extent of eliminating cumulative income tax deferments in each company.

Tax loss carryforwards available for application against future years' incomes but not recognized in the accounts total \$2,564,000 at June 30, 1974.

9. CAPITAL STOCK

At June 30, 1974 61,500 common shares were reserved for issue under outstanding share options and warrants (69,000 common shares at June 30, 1973).

Share options — granted for a five year period; exercisable on completion of previous year's employment to a maximum of 20% on a cumulative basis in each year at \$6.30 per share

Options outstanding at beginning of year	29,000
Less options cancelled	<u>7,500</u>
Share options outstanding at end of year	21,500
Warrants — exercisable at any time to March 1, 1975 at \$12.00 per share	<u>40,000</u>
	<u>61,500</u>

10. LONG-TERM LEASES

The company rents two buildings from two of its directors under long-term "net net" leases which expire August 31, 1977. The annual rentals under these leases total \$28,500. There are options to extend these leases for a further five years at the same annual rentals.

The company rents its office premises from two of its directors under a long-term "net net" lease which expires October 31, 1980. The annual rental under this lease is \$36,000. There are two five-year renewal options to extend this lease at annual rentals to be negotiated.

The company leases equipment under a contract with an annual rental of \$219,000. The contract extends to November 1977 with options to renew for a further two years at an annual rental of \$18,000 or to purchase the equipment at fair market value.

11. CONTINGENT LIABILITY

During the year the companies' records were reviewed by British Columbia Social Service and Motive Fuel tax authorities. No provision has been made in the accounts for any liability since management intends to contest any assessment received and is of the opinion that the ultimate liability, if any, will not be material.

AUDITORS' REPORT

To the Shareholders of
Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at June 30, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
October 31, 1974

Thorne Gunn & Co.
Chartered Accountants

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KAPS

TRANSPORT LTD.

SECOND QUARTER REPORT

DECEMBER 31, 1974

MESSAGE FROM THE PRESIDENT

For the six months ended December 31, 1974, net loss after income taxes and realization of loss carried forward in certain subsidiaries was \$71,000 or 2.8 cents per share as compared to a net loss of \$212,000 or 8.3 cents per share for 1973.

Revenues during the period increased to \$21,572,000 from \$11,591,000 for the same period in 1973. Margins experienced were unsatisfactory; however, the Company is making progress in its program of reorganizing its operations and terminating unprofitable divisions.

The Manufacturing Division continues to produce a profit as a result of some diversification and reorganization of its operations.

The Company has now successfully concluded arrangements to haul large diameter pipe and other cargoes connected with the construction of the Trans-Alaska Pipeline.

Edmonton, Alberta
February 28, 1975

H.D. Kapchinsky
President

KAPS TRANSPORT LTD.

And Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME Six months ended December 31, 1974 (with comparative figures for 1973) (unaudited)

	1974		1973	
	Revenue	Gross Operating Profit	Revenue	Gross Operating Profit
Divisions				
Transportation	\$12,708,000	\$1,644,000	\$7,920,000	\$1,322,000
Manufacturing	1,827,000	659,000	2,635,000	277,000
Other	7,517,000	407,000	1,400,000	7,000
	<u>22,052,000</u>	<u>2,710,000</u>	<u>11,955,000</u>	<u>1,606,000</u>
Elimination of inter- division transactions	480,000	—	364,000	25,000
	<u>\$21,572,000</u>	<u>2,710,000</u>	<u>\$11,591,000</u>	<u>1,581,000</u>
Administrative expenses		1,990,000		1,533,000
Interest on long-term debt		802,000		402,000
Minority interest in net income of subsidiary company		—		10,000
		<u>2,792,000</u>		<u>1,945,000</u>
(Loss) before income taxes and extraordinary item		(82,000)		(364,000)
Income taxes				
Current		192,000		376,000
Deferred		(145,000)		(528,000)
		<u>47,000</u>		<u>(152,000)</u>
(Loss) before extraordin- ary item		(129,000)		(212,000)
Extraordinary item				
Realization of tax loss carry forward of subsidiaries		58,000		—
Net (loss) for the period		<u>\$ (71,000)</u>		<u>\$ (212,000)</u>
(Loss) per share based on 2,563,265 shares out- standing				
(Loss) before extraordin- ary item		(5.0)¢		(8.3)¢
Net (loss) for the period		<u>(2.8)¢</u>		<u>(8.3)¢</u>
Depreciation deducted in arriving at gross operating profit		<u>\$1,398,000</u>		<u>\$1,227,000</u>

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KAPS TRANSPORT LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Six months ended December 31, 1974
(with comparative figures for 1973)
(unaudited)

Source of Funds	1974	1973
(Loss) before extraordinary item	\$ (129,000)	\$ (212,000)
Items not involving current funds		
Depreciation and amortization	1,407,000	1,227,000
Deferred income taxes	(145,000)	(528,000)
Minority interest in net income of subsidiary company	—	10,000
Other	(149,000)	(14,000)
	<u>984,000</u>	<u>483,000</u>
Decrease in investment in 50% owned company	—	133,000
Decrease in deferred development costs	92,000	—
	<u>1,076,000</u>	<u>616,000</u>
Application of Funds		
Additions to fixed assets by purchase of new wholly owned subsidiary, less \$140,000 of non current liabilities assumed	777,000	—
Other additions to fixed assets, net	1,058,000	1,799,000
Increase in investment in 50% owned companies	114,000	—
Decrease in long-term debt, net	186,000	819,000
Financing charges	20,000	—
Additions to intangible assets, net	—	71,000
Dividends to common shares	—	192,000
	<u>2,155,000</u>	<u>2,881,000</u>
(Decrease) in Working Capital	(1,079,000)	(2,265,000)
Working Capital, June 30	277,000	1,270,000
Working Capital (Deficiency), Dec. 31	<u>\$ (802,000)</u>	<u>\$ (995,000)</u>